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Director and Chief Medical Officer

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COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
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June 4, 2003

TO: Each Supervisor

FROM: Thomas L. Garthwaite, M.D.
Director and Chief Medical Officer

A handwritten signature in blue ink, reading "Thomas L. Garthwaite", is written over the printed name and title.

**SUBJECT: DELISTING OF QUADRAMED FROM THE NASDAQ STOCK
MARKET AND ITS POTENTIAL EFFECT ON THE
DEPARTMENT OF HEALTH SERVICES**

On April 16, 2003, QuadraMed Corporation, the parent company of The Compucare Company, the vendor that provides the Affinity healthcare information system (HIS) to DHS, announced that it had executed an agreement with certain of its bondholders to refinance its outstanding debt. QuadraMed had previously announced it was delisted from the NASDAQ Stock Market, requiring QuadraMed to offer to repurchase their bonds.

The delisting was not anticipated to have any immediate negative effects on DHS' operations. We are relieved that the immediate financial crisis has been resolved, but will continue to monitor the situation closely until QuadraMed is relisted, as is their stated intent.

Background

DHS initially contracted with QuadraMed in 1989 to provide hospital information systems to Harbor/UCLA and Olive View/UCLA Medical Centers. Since then, the Affinity system has been successfully implemented in all DHS hospitals.

The County has two agreements with QuadraMed. One agreement covers Harbor/UCLA, Olive View/UCLA, and LAC+USC Medical Centers, and associated health centers. The second agreement covers Rancho Los Amigos National Rehabilitation Center, High Desert Hospital, and Martin Luther King, Jr./Drew Medical Center, and associated health centers. The functions being performed by the Affinity system includes registration, admission, patient scheduling, medical records tracking, order management and results viewing, and in some of our facilities' nursing documentation.

It is our intention to amend these two agreements to extend their term for an additional 18 to 24 months. This action will allow DHS time to assess the impact of the Department's health services system re-design on the Affinity system; for example, determine the need for certain software modules. It also allows DHS time to negotiate a consolidated agreement with QuadraMed, consistent with your Board's direction to reduce the number of agreements with a single vendor, when possible.

Possible Impact of Delisting on DHS

The reason for the delisting was QuadraMed's delay in filing restated financial statements from their last three fiscal years. A special committee of independent directors was appointed by QuadraMed's Board of Directors to oversee the company's efforts to find a new investor or buyer, and to manage the efforts to negotiate with the bondholders. This Committee's efforts were successful and QuadraMed now has sufficient funds to cover the existing bond debt. If these efforts had failed and QuadraMed ceased to operate as a company, DHS would have had to select and implement a replacement system. Replacement of the QuadraMed Affinity modules currently in use in DHS with another vendor's system would have taken a significant commitment of resources over a three-to-five year period. This worst case scenario appears to have been averted.

DHS' Office of the Chief Information Officer (OCIO) had discussed QuadraMed's future with industry experts, and the assessment of these experts was that QuadraMed has a capable management team in place.

Summary

DHS will:

- 1) Continue to monitor QuadraMed's financial situation and inform the Board of any significant changes; and
- 2) Continue negotiations with QuadraMed to amend the term of the two existing QuadraMed agreements for an additional 18 to 24 months.

If you have any questions or need additional information, please let me know.

TLG:lmc

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors
Chief Information Officer